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NEW BONUS REGULATIONS FOR SOVIET MANAGERS, ENGINEERS AND TECHNICIANS

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NEW BONUS REGULATIONS FOR SOVIET MANAGERS, ENGINEERS AND TECHNICIANS

The USSR has recently announced some details of new bonus regulations for managerial-supervisory and engineering-technical employees (ITR)* which went into effect in part of industry and in construction, transportation and communication on 1 October 1959; in most branches of heavy industry and in state agriculture the effective date was 1 January 1960. 1/ Affecting about 3 million persons, the new regulations establish uniform standards and bonus maxima for the various sectors. They replace a similar set of national standards included in government decrees issued in 1946 and 1949 plus a multitude of variations thereof that had become part of the salary compensation structure in the interim through decrees and regulations of the economic ministries. An integral part of the current wage and salary reform in progress since 1955, the new bonus rules are intended to give the USSR's managers and technicians a more direct personal incentive--by making it difficult for many of the managers to maintain their accustomed earnings--for considering output costs as well as output levels. Thus, it is also a key feature of the broader program to improve managerial efficiency throughout the economy.

Provisions of the New Regulations

The new regulations establish certain bonus standards which are common to all affected sectors and others which apply only to a particular sector. Within the limits set by these standards, the sovnarkhozes, the ministries, and the oblast and kray executive committees are given the right to establish specific and detailed regulations for their subordinate enterprises. The most important provisions of the new bonus systems are described below.

Industry--A bonus of up to 15 percent of salary is paid for fulfillment of the plan for reduction in product costs, plus up to 1.5 percent of salary for each 0.1 percent of above-plan cost reduction (and in certain industries also for improvement in product quality). Bonuses to employees responsible for plant performance as a whole (as opposed to shops or sections) are paid quarterly, instead of monthly as before. All bonuses for cost reduction are contingent upon fulfillment of the output plan in the prescribed assortment, the labor productivity plan, and the plans for delivery of products to enterprises of other economic regions, for cooperative deliveries, and for deliveries for all-state needs. Bonuses previously paid solely for fulfillment and overfulfillment of the output plan (contingent, for the most part, only on meeting the cost plan) are to be discontinued, except that a bonus of up to five percent of salary for each percentage of overfulfillment of the output plan is paid in "certain industries where a growth in production is of exceptional importance in the development of the national economy", namely: "coal, petroleum, ore mining, metallurgical, chemical, cement, gas, timber, nonmetallic minerals, sugar, fish, textile, footwear, electrical engineering machine building and cable production; and specialized enterprises of chemical, petroleum, metallurgical and ore concentrating machine building." The total of these bonuses paid to one individual may not exceed 60 percent of his salary if he is employed in the coal, petroleum, ore mining,

* These employees include: enterprise directors and their deputies and assistants; chief engineers and their deputies and assistants; chiefs of shops, sections and shifts; and other positions such as foremen, normsetters, dispatchers, and heads of laboratories.

metallurgical and chemical industries and 40 percent in all other industries.

Construction--The provisions for cost-reduction bonuses are the same as those applicable to industry. In addition, ITR's in construction receive bonuses for completing "very important" construction projects on schedule or ahead of schedule. Bonuses may not exceed 40 percent (20 percent in the case of line engineers and technicians) of an individual's monthly salary.

Transport and Communication--The bonus formula is essentially the same as that for industry, except that a bonus of up to five percent is paid for each percentage of overfulfillment of the cost reduction plan (or income plan). An individual's bonus is limited to 40 percent of his salary.

State Agriculture--ITR's in sovkhozes and subsidiary agricultural enterprises will receive bonuses for above-plan profits and for overfulfilling the annual plan for deliveries to the state. Payment of those bonuses is contingent upon the achievement of physical output goals and fulfillment of the plans for production cost and labor productivity. Bonuses for above-plan profits, which cannot be paid unless the plan for state deliveries is fulfilled, are limited to 10 percent of such profits. For each percentage of overfulfillment of the plan for state deliveries, a bonus of up to 10 percent of an individual's salary is payable. An individual's total annual bonus may not exceel 500 percent (600 percent in the virgin lands) of his monthly salary.

Relation to the Current Wage Reform

The new bonus regulation--an integral part of the general wage and salary reform in progress since 1955 and now scheduled for completion in 1962--is the latest and most drastic action in a long series of developments specifically affecting the compensation of managerial-supervisory and engineering-technical employees. The more significant of these actions are described below.*

(1) New salary scales and revised bonus provisions took effect in state agriculture on 1 January 1957, under which salaries depend on the gross value of the farm's output rather than on the number of hectares or of livestock as before; a bonus of 20 percent is paid for each one percent overfulfillment of the output plan; and 12 percent of the farm's excess profits are made available for payment of bonuses. 2/

(2) In 1957, sharply higher salaries were set for ITR's at construction sites, these salaries being cut by 10 percent for non-fulfillment of the plan, but with retention of the existing bonus plan calling for plan fulfillment bonuses ranging from 22 to 41 percent of basic salaries plus three percent for each one percent of overfulfillment provided specified quality standards are met. Also in 1957 new bonus arrangements were established for completing priority projects on time or ahead of time. 3/

(3) Higher salaries and revised bonus systems were introduced during 1957-58 in coal, ferrous and non-ferrous metallurgy, chemicals, cement, and various other building materials industries. In general, the revised bonus plans reduced the percentage bonuses paid with respect to plan fulfillment and cut the maximum amounts payable to one person. 4/

(4) During 1958-59, variants of the bonus plan embodied in the latest decree were tried out in individual enterprises including several in the machine building, chemicals and building materials industries. 5/

* Some of these actions were changed by various provisions of the new bonus system.

(5) Late in 1958 the State Committee on Labor and Wages ruled that plan fulfillment bonuses were payable only if the enterprise met the plan for cooperative deliveries to other economic-administrative regions "completely, promptly, and correctly." 6/

(6) Early in 1959 the State Committee on Labor and Wages ruled that managerial-supervisory employees in a designated list of jobs may not be paid plan fulfillment bonuses if the wage fund is overspent. 7/

Some Probable Effects

The new bonus arrangements are likely to reduce the earnings of many of the highest-paid managerial personnel and also will result in smaller earnings differentials among industries and among individuals. Under the old arrangements, for example, plan fulfillment bonuses in industry ranged as high as 50 percent of monthly salaries, and bonuses for overfulfillment were as high as 10 percent for each 1.0 percent of above-plan output. Often the percentages varied with the position, the highest percentages applying to the highest-paid positions. An individuals's monthly bonus could be as high as 200 percent of his salary. The various kinds of bonus maxima set under the new regulations are all much lower than these old maxima. Thus, the new system eliminates the most lucrative bonus--that for merely fulfilling the output plan--and substitutes a much smaller basic bonus paid for meeting the cost reduction plan.

In industries where the wage and salary reform is now largely completed (coal, metallurgy, chemical, cement, machine building), salaries for managerial-technical employees have been raised considerably (25 percent in ferrous metallurgy), although some of the highest salaries have actually been cut. It appears, however, that even with these higher salaries, the managers will be hard pressed to maintain their accustomed earnings under the new bonus regulation. In industries not yet under the new wage and salary system, the existing salary levels, coupled with the lower bonuses provided under the new decree, will put managers under severe pressure to keep their incomes from falling sharply. It may also force a speedy completion of the lagging wage and salary reforms in these industries--probably the regime's intent.

Whatever may be the effect of these earnings reductions on morale, the substantial narrowing of wage differentials implicit in the changes is in line with the regime's current policy of "narrowing the gap between the earnings of low paid and high paid workers." The regime seems to feel that it can safely do this without adversely affecting the supply of managerial-technical talent, since the rewards to such persons still are sufficiently high to attract new recruits in the required numbers and those already in the group cannot better their lot by moving elsewhere in the economy.

The complete elimination of the traditional bonus for plan fulfillment means that meeting plan goals is now regarded as "routine," undeserving of any special reward. Instead, monetary gains are to accrue largely to those who meet the goals with the required "efficiency" as measured by success in attaining or surpassing plans for reducing unit costs. The new system probably will succeed in making Soviet managers more cost-conscious and thereby should also encourage a more receptive attitude toward new production techniques, since the managers are left with no good alternative if they wish to maintain their accustomed level of living. In this respect the new bonus regulations are a preliminary step in implementing the resolution of the Party Plenum in June 1959 ordering appropriate government agencies to submit proposals for "increasing material incentives to workers in industry, construction, transport research and designing organization to improve the technology of production." Evidently, the special bonuses established in 1956 for that purpose have not proved sufficient.

In sectors of industry where bonuses are paid for above-plan output as well as cost reduction, managers may have to choose whether to strive for more output or lower costs or some combination of both. Which they choose will depend on the relative feasibilities of alternative courses of action. Where bonuses depend solely on cost reduction, the ability of managers to maximize their income will depend on the availability of opportunities for cutting costs. Since these opportunities may be hard to come by, Soviet managers may be expected to devise ingenious methods for understating cost-reduction possibilities in the plan, just as in the past they found ways to understate the possibilities for expanding output.

Under the new bonus system, managers are encouraged to produce planned outputs at minimum cost. Where product prices are fixed by the State and output levels and assortment are fixed by plans, a reduction in cost increases profits. In this situation a bonus for reducing costs becomes a bonus for increasing profits, and sounds very much like Soviet encouragement of the profit-maximizing activity heretofore reserved for capitalist managers.

Finally, the change in the basis for compensating managers conceivably could alter the relationships between Soviet managers and their workers. When both managers and workers were paid on the basis of output alone, they shared a common interest--to increase production. Now, the workers are still paid primarily for output, while the manager's income depends on the efficiency with which this output is produced. He will therefore strive to employ as few workers as possible, to make them work harder, and to pay them only what he must. For the economy as a whole, of course, managerial efforts to economize on labor resources are particularly welcome during the next few years of relatively tight labor supply, and economizing of other inputs is always a net gain. But can it be that the price for economic efficiency in the USSR is to be the admission into the "socialist camp" of those devils of capitalism--the profit motive and the class struggle?

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